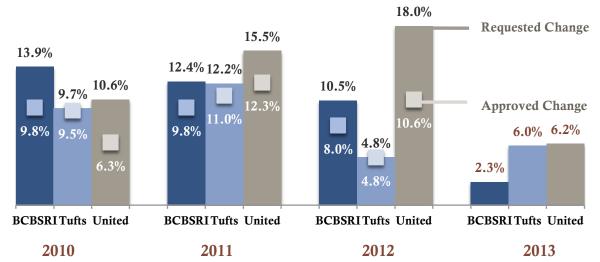


# 2012 Insurer Rate Review

### **Small Group Rates Changes**

Requested and Approved, Effective 2010 through 2013



NOTE: 2013 rate increases do not reflect the value of health reform (ACA) taxes. These taxes will apply to the portion of 2013 renewals that are charged in 2013 and will add an average of 1.9% and 1.7% to BCBSRI's small and large group rates, respectively; 0.7% to Tufts', and 1.8% to United's rates.

In the rate request for 2013, Tufts noted that it intends to amend its 2012 rates to reflect savings from a pharmacy contract, to be executed in June 2012. These savings would take effect in the 2" half of 2012. 2013 rate increases are measured against this new, lower level.

\* "United Healthcare" refers to products sold by both United Healthcare of New England and United Healthcare Insurance Company

### About this Report

This report is the first in a series that explores Rhode Island's Rate Review process.

The Office of the Health Insurance Commissioner (OHIC) annually reviews small and large group health insurance rate increases for the upcoming year. OHIC collects the requests, backup data, and other information to support its final approval or denial of the requests.

In this report, we present the requests for the companies that file with OHIC, an analysis of the components that drive the rate increase, and historical comparisons.

## Requested rate increases below five-year trend

On Friday May 18th, the three largest private insurers in Rhode Island requested rate increases for the premiums they will charge to both small and large groups, beginning on January 1, 2013. All three companies filed growth rates well below their historical trend. For small groups, Blue Cross Blue Shield of Rhode Island (BCBSRI) filed the lowest requested change (2.3%), followed by Tufts Health Plan (Tufts) (6.0%) and United Healthcare (United) (6.2%).

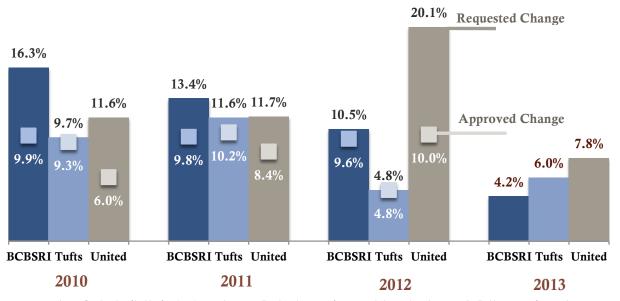
A rate change may be driven

by major spending such as medical expenses, administrative expenses, contribution to reserves and miscellaneous expenses. The increases in the chart above reflect the sum of the change for each of these drivers and exclude the cost of health reform (ACA) taxes.

Over the next several weeks. the Office will review the submissions, their supporting documentation, backup data, and informative survey responses to assess these requests. The Office will issue its final decision in early July.

### Large Group Rate Changes

Requested and Approved, Effective 2010 through 2013



NOTE: 2013 rate increases do not reflect the value of health reform (ACA) taxes. These taxes will apply to the portion of 2013 renewals that are charged in 2013 and will add an average of 1.9% and 1.7% to BCBSRI's small and large group rates, respectively; 0.7% to Tufts', and 1.8% to United's rates.

\* In the rate request for 2013, Tufis noted that it intends to amend its 2012 rates to reflect savings from a pharmacy contract, to be executed in June 2012. These savings would take effect in the Z<sup>et</sup> half of 2012. 2013 rate increases are measured against this new, lower level.

\* "United Healthcare" refers to products sold by both United Healthcare of New England and United Healthcare Insurance Company

### Large group rate increases are below trend, slightly higher than small group

For each of the three health insurers filing with OHIC, this year's large group rate requests are lower than any of the previous five years. BCBSRI posted a 4.2% increase and United posted a 7.8% increase. Both company's previous five-year request average was 13.2%. Tufts requested 6.0% versus its previous three-year average of 8.7%.

The largest difference between overall requested large group and small group rates was the impact of the *prior period adjustment*, or the offset for lower medical spending in the previous year (see discussion on page 3). In 2012, medical spending in the small group market was much lower than both United and BSBCRI predicted. Each company will request lower rates because of this change. The prior period adjustment was much smaller in the large group market, leading to a lower offset.

Small groups generally require higher administrative costs per person, and these costs have tended to increase at a faster rate among small groups than large groups. In 2013, requested large group administration growth is 2.1 percentage points lower than small group growth at United, 0.8 points at BCBSRI and 0.5 points at Tufts. The projected rate of medical spending growth is neither consistently higher nor lower among the two market types.

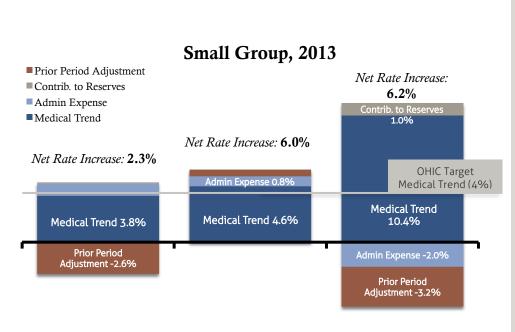
The figures above also reflect anticipated rate changes before the impact of health reform (ACA) taxes, such as those to fund the reinsurance program. The value of this impact is listed in the chart footnotes above. Because group rates are effective for twelve months after renewal and ACA costs only apply to premiums collected in 2014, the projected ACA impact is the *average* impact to subscribers who will renew at various times throughout the year.

## Base Rates

The increases in the above charts reflect each company's estimate of the annual change to its base rates. Insurers derive a group's monthly premium by adjusting the base rate for each group's unique demographics.

For instance, if the base rate – the standard premium – is \$250 per member, per month, a company will calculate the final premium by adjusting the base rate up or down depending on the age and gender mix of the group as well as its benefit package (cost sharing, deductibles, etc.).

If a base rate increases by 4%, the final premium may change from the previous year by more or less than 4%, depending on the group characteristics.



made up of several distinct categories, the largest of which is *medical trend*, or the anticipated change in medical care spending in the coming year.

Because medical

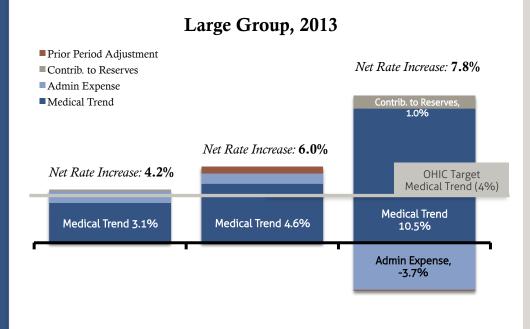
Every rate increase is

trend is a prospective concept – how will spending change next year compared to this year? – adjustments for unanticipated changes in prior year spending are identified separately. The value of these prior period adjustments, ranged from -3.2% at United to 0.6% at Tufts.

BCBSRI Tufts United

## Components of Rate Change

Rising medical spending is the largest driver of rate increases



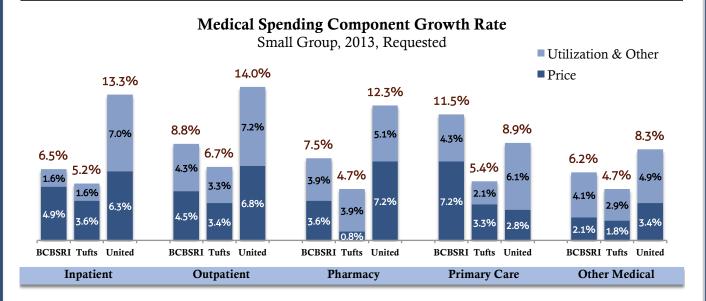
Other drivers include administrative expenses, contribution to surplus or reserves, and upcoming market changes, such as certain health reform (ACA) provisions.

BCBSRI's medical trend figures also include one-time savings from a pharmacy benefit management contract the company will execute in 2013.

BCBSRI Tufts United

For more detail on these figures, please see the appendices on pages 5 and 6

## Components of Medical Spending



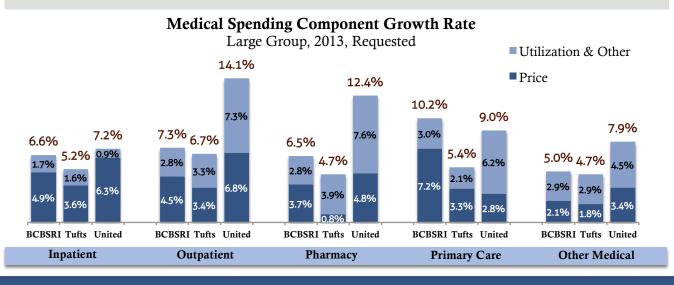
### Price, Utilization, and Medical Trend

Medical spending can increase or decrease because members use more services than in the previous year (*utilization*) or because the price of care itself has changed (*price*). The charts on this page outline the components of medical trend -- from hospital services to primary care and pharmacy -- and how price and utilization contribute to this year's requested rate increases.

For instance, Blue Cross expects their small group inpatient spending to grow by 6.5% from last year – the cost of services will grow by 4.9% and the use will grow by 1.5%.

An important driver of this year's lower overall rate increase is OHIC's guidance that issuers submit a medical trend below 4%, an expectation, rather than a firm target, that was developed in consultation with the Health Insurance Advisory Council (HIAC). The Office informed the plans of this guidance in December 2011 and issued further clarifications in April and May 2012.

To calculate the data above, health insurers use several years of data to project future claims for all groups renewing in 2014. As a result, the numbers above are the average of the next two years of increases, while the aggregate trends on page three and in the appendices refer to medical trend in 2013 only.



# Appendices

#### Requested Rate Factor Components, Effective January 1, 2013

		Small Group		Large Group					
	Blue Cross Blue Shield	Tufts Health Plan	United Healthcare	Blue Cross Blue Shield	Tufts Health Plan	United Healthcare			
Aggregate Medical Trend	6.1%	4.6%	10.4%	5.4%	4.6%	10.5%			
One-Time PBM Effect	-2.3%			-2.3%					
Prior Period Adjustment (+/-)	-2.6%	0.6%	-3.2%	0.0%	0.6%	-0.1%			
Administrative Expense	0.5%	0.7%	-2.9%	0.4%	0.7%	-4.5%			
Contribution to Reserves	0.1%	0.0%	1.0%	0.2%	0.0%	1.0%			
Premium Tax and Assessments	0.5%	0.2%	0.8%	0.5%	0.2%	0.8%			
Legally Mandated Changes		0.0%	0.0%		0.0%	0.0%			
Total Average Rate Increase	2.3%	6.0%	6.2%	4.2%	6.0%	7.8%			
ACA Taxes	1.9%	0.7%	1.8%	1.7%	0.7%	1.8%			

#### Blue Cross Blue Shield of Rhode Island

	Small Group Annual Increases				Large Group Annual Increases					
	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request
Hospital Inpatient	8.4%	7.9%	6.1%	6.1%	6.5%	8.4%	7.9%	6.4%	6.4%	6.6%
Price (%)	7.3%	6.8%	5.7%	5.7%	4.9%	7.3%	6.8%	5.7%	5.7%	4.9%
Utilization & Other (%)	1.1%	1.1%	0.5%	0.5%	1.6%	1.1%	1.1%	0.7%	0.7%	1.7%
Hospital Outpatient	12.4%	11.8%	9.8%	9.8%	8.8%	12.4%	11.8%	10.1%	10.1%	7.3%
Price (%)	6.8%	6.3%	5.3%	5.3%	4.5%	6.8%	6.3%	5.3%	5.3%	4.5%
Utilization & Other (%)	5.5%	5.5%	4.5%	4.5%	4.3%	5.5%	5.5%	4.8%	4.8%	2.8%
Pharmacy	10.6%	10.6%	12.1%	12.1%	7.5%	10.1%	10.1%	11.2%	11.2%	6.5%
Price (%)	N/A	N/A	3.6%	3.6%	3.6%	N/A	N/A	3.6%	3.6%	3.7%
Utilization & Other (%)	N/A	N/A	8.5%	8.5%	3.9%	N/A	N/A	7.7%	7.7%	2.8%
Primary Care	13.4%	13.4%	13.7%	13.7%	11.5%	13.4%	13.4%	14.0%	14.0%	10.2%
Price (%)	8.1%	8.1%	9.4%	9.4%	7.2%	8.1%	8.1%	9.4%	9.4%	7.2%
Utilization & Other (%)	5.3%	5.3%	5.3%	4.3%	4.3%	5.3%	5.3%	4.6%	4.6%	3.0%
All Other Medical Care	7.7%	7.7%	6.6%	6.6%	6.2%	7.7%	7.7%	6.8%	6.8%	5.0%
Price (%)	2.6%	2.6%	2.5%	2.5%	2.1%	2.6%	2.6%	2.5%	2.5%	2.1%
Utilization & Other (%)	5.0%	5.0%	4.1%	4.1%	4.1%	5.0%	5.1%	4.3%	4.3%	2.9%
Non Medical Costs: Projected Percent of Premium										
Administrative Costs	13.5%	12.7%	14.6%	12.1%	14.9%	11.5%	10.9%	12.7%	11.8%	14.1%
Reserves and Profit	3.0%	2.3%	3.3%	2.3%	3.3%	3.0%	2.3%	3.3%	3.3%	3.3%
Overall Average Increase	12.4%	9.8%	10.5%	8.0%	2.3%	13.4%	9.8%	10.5%	9.6%	4.2%

#### United Healthcare

	Small Group Annual Increases				Large Group Annual Increases					
	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request
Hospital Inpatient	10.9%	8.4%	11.1%	8.3%	7.0%	12.2%	12.2%	11.7%	8.3%	7.2%
Price (%)	8.4%	N/A	8.0%	N/A	6.3%	8.4%	N/A	8.0%	N/A	6.3%
Utilization & Other (%)	2.5%	N/A	3.1%	N/A	7.0%	3.8%	N/A	3.7%	N/A	0.9%
Hospital Outpatient	13.5%	12.4%	13.5%	9.8%	14.0%	14.8%	12.2%	14.2%	10.1%	14.1%
Price (%)	6.8%	N/A	6.5%	N/A	6.8%	6.8%	N/A	6.5%	N/A	6.8%
Utilization & Other (%)	6.7%	N/A	7.0%	N/A	7.2%	8.0%	N/A	7.7%	N/A	7.3%
Pharmacy	10.5%	10.6%	11.0%	11.0%	12.3%	11.4%	11.4%	11.6%	11.2%	12.4%
Price (%)	5.4%	N/A	4.8%	N/A	7.2%	5.4%	N/A	4.8%	N/A	4.8%
Utilization & Other (%)	5.1%	N/A	6.2%	N/A	5.1%	6.0%	N/A	6.8%	N/A	7.6%
Primary Care	10.8%	13.4%	12.8%	12.8%	8.9%	12.1%	13.4%	13.5%	13.5%	9.0%
Price (%)	4.7%	N/A	5.8%	N/A	2.8%	4.7%	N/A	5.8%	N/A	2.8%
Utilization & Other (%)	6.1%	N/A	7.0%	N/A	6.1%	7.4%	N/A	7.7%	N/A	6.2%
All Other Medical Care	10.8%	13.4%	12.8%	9.5%	8.3%	12.1%	12.1%	13.5%	13.5%	7.9%
Price (%)	4.7%	N/A	5.8%	N/A	3.4%	4.7%	N/A	5.8%	N/A	3.4%
Utilization & Other (%)	6.1%	N/A	7.0%	N/A	4.9%	7.4%	N/A	7.7%	N/A	4.5%
Non Medical Costs: Projected Percent of Premium										
Administrative Costs	11.5%	11.7%	13.3%	13.3%	13.1%	12.0%	13.5%	12.8%	12.3%	11.0%
Reserves and Profit	3.1%	1.0%	2.5%	0.0%	2.0%	5.0%	1.0%	2.2%	1.0%	2.0%
Overall Average Increase	15.5%	12.3%	18.0%	10.6%	6.2%	11.7%	8.4%	20.1%	10.0%	7.8%

#### **Tufts Health Plan**

	Small Group Annual Increases				Large Group Annual Increases					
	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request	2011 Request	2011 Approved	2012 Request	2012 Approved	2013 Request
Hospital Inpatient	12.2%	9.7%	8.3%	8.3%	5.2%	12.2%	9.7%	8.3%	8.3%	5.2%
Price (%)	7.6%	7.6%	5.1%	5.1%	3.6%	7.6%	7.6%	5.1%	5.1%	3.6%
Utilization & Other (%)	4.6%	2.1%	3.2%	3.2%	1.6%	4.6%	2.1%	3.2%	3.2%	1.6%
Hospital Outpatient	11.2%	11.2%	8.6%	8.6%	6.7%	11.2%	11.2%	8.6%	8.6%	6.7%
Price (%)	7.2%	7.2%	5.0%	5.0%	3.4%	7.2%	7.2%	5.0%	5.0%	3.4%
Utilization & Other (%)	4.0%	4.0%	3.6%	3.6%	3.3%	4.0%	4.0%	3.6%	3.6%	3.3%
Pharmacy	9.1%	9.1%	6.9%	6.9%	4.7%	9.1%	9.1%	6.9%	6.9%	4.7%
Price (%)	6.6%	6.6%	4.9%	4.9%	0.8%	6.6%	6.6%	4.9%	4.9%	0.8%
Utilization & Other (%)	2.5%	2.5%	2.0%	2.0%	3.9%	2.5%	2.5%	2.0%	2.0%	3.9%
Primary Care	9.0%	9.0%	7.9%	7.9%	5.4%	9.0%	9.0%	7.9%	7.9%	5.4%
Price (%)	5.9%	5.9%	4.8%	4.8%	3.3%	5.9%	5.9%	4.8%	4.8%	3.3%
Utilization & Other (%)	3.1%	3.1%	3.1%	3.1%	2.1%	3.1%	3.1%	3.1%	3.1%	2.1%
All Other Medical Care	9.0%	9.0%	7.4%	7.4%	4.7%	8.6%	8.6%	7.4%	7.4%	4.7%
Price (%)	5.9%	5.9%	3.9%	3.9%	1.8%	3.4%	3.4%	3.9%	3.9%	1.8%
Utilization & Other (%)	3.1%	3.1%	3.5%	3.5%	2.9%	5.2%	5.2%	3.5%	3.5%	2.9%
Non Medical Costs: Project	ed Percent o	Premium								
Administrative Costs	14.0%	13.5%	13.5%	13.5%	14.8%	13.5%	13.0%	13.0%	13.0%	14.3%
Reserves and Profit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overall Average Increase	12.2%	11.0%	4.8%	4.8%	6.0%	11.6%	10.2%	4.8%	4.8%	6.0%